

ANNEX 1: A DESCRIPTION OF THE USAID BANK RATING SYSTEM

<i>Ratings Summary for USAID</i>					
Topics/Categories and Description of Coverage	Description of Ratings				
	1 = DISMAL	2 =RUDIMENTARY	3 =ADEQUATE	4 =SOLID	5 =OUTSTANDING
General Description of Ratings: <ul style="list-style-type: none"> Financial infrastructure Economic factors and indicators Banking sector structure and profile CAMELOTS indicators 	Monopolistic; state-owned banks dominate; no public confidence; lack of intermediation and widespread directed lending; lack of banking legal and regulatory structure; nascent regulatory institutions; widespread corruption	Little competition; weak household deposit growth; limited intermediation; diminishing directed lending; poor legal and regulatory structure and implementation	Growing competition; private banks dominate; steady household deposit growth; growing intermediation; adequate legal and regulatory structure, but inconsistent implementation; regulatory institutions are sustainable	Healthy competition; expanding intermediation to all enterprise sectors and households; growing lists of products/services offered; good legal and regulatory structure, and consistent implementation; credible regulatory institutions	Competitive globally; thriving financial intermediation; full range of products/services offered; diversified and sustainable earnings; strong legal and regulatory structure

I. FINANCIAL INFRASTRUCTURE					
Topics/Categories and Description of Coverage	1 = DISMAL	2 =RUDIMENTARY	3 =ADEQUATE	4 =SOLID	5 =OUTSTANDING
1.1. Policy/System	Wholly unsupportive of stable, safe and sound banking	Generally unsupportive of stable, safe and sound banking; significant improvements needed	Partly supportive of stable, safe and sound banking, but improvements needed	Supportive of stable, safe and sound banking	Wholly supportive of stable, safe and sound banking
1.2 Legal	Wholly unsupportive of stable, safe and sound banking and meaningful levels of risk-taking	Generally unsupportive of stable, safe and sound banking; virtually no meaningful levels of risk-taking	Fairly supportive of stable, safe and sound banking, but implementation deters meaningful levels of risk-taking	Supportive of stable, safe and sound banking and meaningful levels of risk-taking	Wholly supportive of stable, safe and sound banking and meaningful levels of risk-taking
1.3 Regulatory and Supervision	Wholly inadequate for prudently managed and supervised banking	Inadequate regulatory framework for prudently managed and supervised banking; significant strengthening needed	Adequate regulatory framework for prudently managed and supervised banking, but strengthening needed	Solid regulatory framework for prudently managed and supervised banking	Outstanding regulatory framework for prudently managed and supervised banking
1.4 Payments System	Wholly inadequate and undermines integrity of banking system	Inadequate and inefficient systems weaken limited efforts to build up integrity of banking system	Adequate but less than efficient systems support increasing integrity of banking system	Solid systems reinforce integrity of banking system	World class systems reinforce integrity of banking system
1.5 Accounting	Wholly inadequate framework for banking	Unacceptable framework for banking; significant improvement needed	Acceptable framework for banking, but sophistication needed	Satisfactory framework for banking	Outstanding framework for banking

<i>1.6 Rating Agencies and Systems</i>	Wholly unsupportive of banking sector development	Generally unsupportive of banking sector development	Marginally supportive of banking sector development	Supportive of banking sector development	Wholly supportive of banking sector development
<i>1.7 Financial Media</i>	Wholly unsupportive of banking sector development and growth	Generally unsupportive of banking sector development and growth; professionalization and code of ethics needed	Marginally supportive of banking sector development and growth	Supportive of banking sector development and growth	Wholly supportive of banking sector development and growth
<i>1.8 Professional Associations</i>	Wholly unsupportive of banking sector development and growth	Generally unsupportive of banking sector development and growth	Marginally supportive of banking sector development and growth	Supportive of banking sector development and growth	Wholly supportive of banking sector development and growth
<i>1.9 Academic</i>	Wholly unsupportive of banking sector development and growth	Generally unsupportive of banking sector development and growth	Marginally supportive of banking sector development and growth	Supportive of banking sector development and growth	Wholly supportive of banking sector development and growth
<i>1.10 Miscellaneous</i>	Wholly inadequate and undermines integrity of banking system	Generally unsupportive of banking system; significant improvement needed	Only partly supportive of banking system, but improving	Supportive and reinforces integrity of banking system	Wholly supportive and reinforces integrity of banking system

II. ECONOMIC FACTORS/INDICATORS					
Topics/Categories and Description of Coverage	1 = DISMAL	2 =RUDIMENTARY	3 =ADEQUATE	4 =SOLID	5 =OUTSTANDING
2.1 General	Dismal macroeconomic fundamentals undermine banking sector development	Inadequate macroeconomic fundamentals deter risk-taking by banks	Adequate macroeconomic fundamentals assist with banking sector stability	Solid macroeconomic fundamentals provide banking opportunities	Outstanding macroeconomic fundamentals reinforce and enhance banking sector
2.2 Private Sector Development	Poor levels of private sector development in formal economy undermine banking development	Growing but inadequate levels of private sector development for sustainable, meaningful growth undercut banking sector development	Adequate private sector development supported by favorable trends, but improvements needed	Strong economy based on competitive private sector	World class, state-of-the-art economy predicated on innovative, resourceful private sector
2.3 Money, Savings and Credit	Dismal monetary fundamentals wholly undermine banking sector development	Weak monetary fundamentals deter banking sector development	Adequate monetary fundamentals boost confidence, but improvement needed	Solid monetary fundamentals contribute to strong banking system	Solid monetary fundamentals, shaped by world-renowned risk management practices, contribute to global standards of banking system competitiveness
2.4 Fiscal	Dismal fiscal fundamentals wholly undermine banking sector development	Weak fiscal fundamentals deter banking sector development	Adequate fiscal fundamentals boost confidence, but improvement needed	Solid fiscal fundamentals contribute to strong banking system	Solid fiscal fundamentals contribute to stability in support of banking system competitiveness
2.5 Exchange Rates	Dismal exchange rate fundamentals wholly undermine banking sector development	Weak exchange rate fundamentals deter banking sector development	Adequate exchange rate fundamentals boost confidence, but improvement needed	Solid exchange rate fundamentals contribute to strong banking system	Solid and stable exchange rate fundamentals, shaped by world-renowned risk management practices, contribute to global standards of banking system competitiveness
2.6 Balance of Payments	Dismal balance of payments position reflects competitive weaknesses of economy	Poor balance of payments position reflects competitive weaknesses of economy	Adequate balance of payments position reflects growing competitiveness of economy despite weaknesses	Reasonably strong balance of payments position reflects competitive strengths of economy	Enviably strong balance of payments position reflects competitive strengths of economy

III. BANKING STRUCTURE AND SYSTEM PROFILE					
Topics/Categories and Description of Coverage	1 = DISMAL	2 =RUDIMENTARY	3 =ADEQUATE	4 =SOLID	5 =OUTSTANDING
3.1 Overview	Wholly uncompetitive banking system	Poor reputation re competitiveness in the banking system	Adequate reputation for competitiveness in banking, but strengthening is needed	Solid reputation for competitiveness in banking	World class status re competitiveness in banking
3.2 Ownership	Monopolist, protectionist banking system resistant to foreign competition and change	Traditionally closed banking system only beginning to open up to foreign competition and change	Adequate levels of competitiveness and performance due to recent trend towards private ownership and management	Reasonably open and generally privately owned and managed banking system respected for competitive position	Open, privately owned and managed banking system globally respected for competitive prowess
3.3 Governance and Management	Dismal governance and management undermine banking and economic development	Weak governance and management undermine banking development despite recent but very marginal improvements	Adequate governance and management for banking, but improvements needed to achieve global competitiveness in banking	Strong governance and management sustain competitiveness in banking	World class governance and management reinforce and sustain competitiveness in banking
3.4 Non-Bank Competition	No serious competition from non-banks further undermines the need for financial discipline	Very limited competition from non-banks provide little pressure on banks to exercise financial discipline	Adequate levels of competition from non-banks, but lack of market breadth and depth limit impact on competitiveness and financial discipline of banks	Satisfactory levels of competition from non-banks enhance competitiveness and financial discipline of banks	Significant competition from non-banks further strengthens levels of competitiveness and financial discipline of banks

IV. BANKING SECTOR DEVELOPMENT BASED ON PRUDENTIAL NORMS					
Topics/Categories and Description of Coverage	1 = DISMAL	2 =RUDIMENTARY	3 =ADEQUATE	4 =SOLID	5 =OUTSTANDING
4.1 Capital Adequacy	Wholly inadequate capital	Inadequate capital	Adequate capital	Reasonably strong capital	Enviably strong capital
4.2 Asset Quality	Dismal asset quality	Poor asset quality	Adequate asset quality, although significant room for improvement	Reasonably strong asset quality	Enviably strong asset quality
4.3 Management	Wholesale disregard for fundamentals of risk management	General lack of awareness of risk management fundamentals	Fairly weak but improving reputation based on emerging risk management capacity in a market showing increasing levels of competition	Reasonably strong reputation based on satisfactory risk management capacity in a fairly competitive market	Enviably strong reputation based on world class risk management capacity in fiercely competitive market
4.4 Earnings	Sustained losses that have decapitalized the banks by IAS	Weak or unstable earnings	Adequate earnings, but room for added stability and diversification	Reasonably strong and diversified earnings	Enviably strong and diversified earnings
4.5 Liquidity	Severe liquidity problems	Liquidity problems	Adequate liquidity position, but room for strengthening	Reasonably strong liquidity position on an ongoing basis	Enviably strong liquidity position on an ongoing basis
4.6 Operating and Regulatory Environment	Dismal operating and regulatory environment	Poor operating and regulatory environment	Adequate and improving operating and regulatory environment	Reasonably strong operating and regulatory environment	Enviably strong operating and regulatory environment
4.7 Transparency and Disclosure	Dismal standards for transparency and disclosure	Weak standards for transparency and disclosure	Adequate standards for transparency and disclosure	Reasonably strong standards for transparency and disclosure	World class standards for transparency and disclosure
4.8 Sensitivity to Market Risk	Dismal reputation for sensitivity to market risk under market conditions	Poor reputation for sensitivity to market risk under market conditions	Adequate and improving reputation to manage sensitivity to market risk as market conditions increasingly prevail	Strong reputation to manage sensitivity to market risk under market conditions	World class reputation to manage sensitivity to market risk and continuously prosper under market conditions